REPORT OF THE REVIEW PANEL

TO THE CANADIAN WHEAT BOARD

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CANADIAN

WHEAT BOARD

September 14, 1990

Commissioners of
The Canadian Wheat Board
423 Main Street
Winnipeg, Manitoba
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Gentlemen:

In January of this year, the Commissioners of the Canadian Wheat Board appointed the Review Panel to examine the role of the Board in marketing Canada's grain in the global trading environment of the Nineties in order to maximize returns to Western Canadian producers.

The Panel has now completed its study, and the members of the Panel are pleased to present their recommendations to the Canadian Wheat Board with the sincere hope of providing guidance for the future of the Board.

The members of the Review Panel express their sincere gratitude to the Board for the opportunity to serve on this panel.

Yours truly,

Barry Connell Steers
Chair
Canadian Wheat Board Review Panel

This report is respectfully submitted to the Canadian Wheat Board, September 14, 1990

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EXECUTIVE SUMMARY

THE CANADIAN WHEAT BOARD REVIEW PANEL

The Canadian Wheat Board Review Panel was appointed to examine the challenges and opportunities that will be faced by the Canadian Wheat Board in the Nineties and beyond. Recommendations were to be made which would strengthen the viability of the grain industry in Western Canada, with particular focus on maximizing returns to the western farmer. In carrying out this assignment, it became necessary to examine the Canadian Wheat Board organization and its structure, including marketing procedures, transportation, and the pooling system of averaging returns to the farmer for grain sold.

The Panel drew not only upon the extensive experience and background of the Panel members, but also upon briefings and discussions by officers of the Wheat Board, papers prepared and obtained for it by the Wheat Board, and discussions with the Ministers of Agriculture from the provinces of Manitoba, Saskatchewan, and Alberta. The Panel was particularly appreciative of the wide-ranging unsolicited submissions from several business and farm organizations with interest in western grains.

Challenges and Issues

The grain economy of Western Canada emerged from the decade of the Eighties buffeted by the subsidy trade wars between the European Economic Community and the United States of America. European farm subsidies encouraged and paid for enormous increases in grain production in such countries as France, Germany, and even in Britain, which shifted its historical role from customer of Western Canada to competitor. The result was a serious loss of farm income everywhere in Western Canada, and ruinous losses for many.

At the time of writing, doubts remain about when, indeed whether, the General Agreement on Tariffs and Trade (GATT) can remove the array of traditional marketing distortions and weak prices brought on by heavy producer subsidies applied to our traditional overseas markets.

The decade ended with the signing of the Free Trade Agreement between the United States and Canada, which offers both opportunity and challenge to western farmers. Not only will the United States be open to their products, but Canada will be open to American competition.

The rapid political and economic restructuring taking place in the U.S.S.R. and Eastern Europe will change the nature of our grain trade in these nations. As the trend towards market economies spreads across the developing world, new challenges and opportunities will emerge. We must be quick and innovative in our response.

What seems certain is that the number of potential business customers will multiply well beyond what has been our experience in the post-war era. Our success will depend on our ability to cope in this new fast-moving, complex and competitive business world interlinked with instant communication demanding immediate binding decisions.

Members of the Panel were not surprised by comments from United States business people, many of whom seem to believe that the Canadian Wheat Board is a department of government organized to subsidize and set the price for wheat in Canada. The Panel did not expect, however, to learn that some Canadian business people believe the Wheat Board's function differs little from that of provincial farm marketing boards, and that it does its marketing through legislative control of supply.

There are other views that, while the Board is well organized to move grain to the state traders of the U.S.S.R. and China, it is less well

suited to sell in a less-concentrated, swiftly-moving open market environment. These views exist in part because the organization and structure of the Wheat Board is so very different from the commercial organizations business people know and understand. At the same time, the Wheat Board systems of sales, transportation, initial payments and pooling are considered vital elements of the western farmers' livelihood – elements the farmers do not wish to see disappear.

Corporate Structures for the Future

Though the Board has shown over the years that it has done well for the farmers it serves, its structure differs from parallel and competitive commercial corporations into whose world of the Nineties it must meld. There are self-evident strengths in both marketing and management which the Board would gain were it to adopt an organizational structure in keeping with conventional business practice. It is the recommendation of the Review Panel that the current Canadian Wheat Board be reorganized into a modern corporate structure, similar to those guiding almost all major enterprises in today's western world. Just as commerce and industry find this structure best suited to the fast-changing multi-faceted markets in which they operate, so, too, will those charged with marketing Canadian wheat and barley.

This new Corporation would be guided in matters of policy by an appointed chair and board of directors, who would hire a professional president, the chief executive officer responsible for the day-to-day management of the Corporation, including the selection of vice-presidents and other senior staff. The board of directors should consist of grain producers, senior members from industry and government officials. Members would be selected to give the Corporation the credibility, support and experience required. An appropriate balance of producer input is critical to recognizing the strong stakeholder interest of producers who pay the costs of operating the Canadian Wheat Board.

The board of directors would focus on longer-term corporate strategy, setting guidelines and limits within which the president and the management team could work without interference. Such involvement might also include decisions as to the extent of corporate participation in commodity futures markets, funding to support research, and the magnitude of corporate participation in other ventures.

To accomplish this change in management structure without disruption to customers or producers, a smooth transition is essential. It would be folly not to make the transition under the capable management of those who understand the current business best, so that its most productive elements can be carried forward into the new Corporation. One would foresee current Commissioners filling key positions in the new Corporation, such as president, vice-president, and directors on the new board.

EXPORTING CANADA'S GRAIN

Exporting to the United States

It is the responsibility of the Canadian Wheat Board to market, either directly or through its accredited agents, all wheat and barley sold for export. While some expectations may have been raised by the Canada/United States Trade Agreement that the United States will be treated differently, it is the view of the Review Panel that Canadian Wheat Board export authority to all export destinations, including the United States, is necessary if producers wish to retain the Canadian Wheat Board pooling operation.

The Panel supports the decision made by the federal government during the negotiation of this Agreement that Canadian Wheat Board export authority remain unchanged.

The new Corporation will have to develop a range of effective marketing mechanisms to capture market opportunities in the United States. Sales personnel from the Corporation and its agents will have to develop a wide range of new contacts and new outlets . The Review Panel feels that the accredited agents of the current Board will prove essential strong partners of this new business.

In addition, it is important to recognize that the United States is a major net exporter of wheat

and barley. For this reason, Canadians should pursue niche markets. Careful attention should be paid to the food processing industry in both Canada and the United States.

Grain Quality

For all markets, the new Corporation should place a major emphasis on evaluating the effectiveness of the grain quality system in delivering the quality of grain required by the end user. To this end, the Review Panel strongly supports current market development initiatives, including the Board's financial support for the Canadian International Grains Institute. In addition, further efforts should be carried out to coordinate the resources within the Canadian Wheat Board, the Canadian Grain Commission, and the scientific community to ensure the varietal registration and grain grading and selection systems are appropriate to meet the challenges of the Nineties and beyond. As a modest new initiative, the Review Panel supports a Board proposal to finance a small but targeted program to supplement current plant breeding efforts to meet future market requirements.

Other Crops

The Review Panel also discussed the potential for the Canadian Wheat Board to market other crops. While it is politically sensitive for the Canadian Wheat Board to promote itself for the marketing of other crops, such as canola or rye, the Board should be prepared to come forward, if asked, to outline how it would market such crops. For example, a task force to review the marketing of canola has been established by the federal government. If one of the options considered is Canadian Wheat Board marketing of canola, then the Board should be prepared to explain how it would carry out this new function.

MARKETING GRAIN FOR FURTHER PROCESSING

The markets for further processed products, including livestock are increasingly becoming North American markets. The Canadian Wheat Board, government, and industry must work together in a coordinated fashion to ensure that Canada is able to retain and develop a fair share of this business.

The Canada/United States Trade Agreement requires that import licensing for wheat and barley originating in the United States be dropped when United States subsidies are deemed to have fallen to or below the level of those in Canada. To this end, it is the recommendation of the Review Panel that the Canadian Wheat Board move immediately to price wheat and barley in Canada competitively with United States domestic prices. Moreover, the Panel urges that more flexible arrangements be developed to allow the industry to select grain or qualities different from those provided by official grades and standards, and that these be adjusted as necessary to meet the needs of flour millers and other food processors in Canada and the United States.

It is essential that a new level of trust and cooperation be fostered with the Canadian milling industry as it moves toward a single North American market.

With regard to the domestic feeding industry, the Board will have to become a more significant player in sales to the domestic market when imports from the United States are allowed into Canada. The Review Panel recommends that the Board allow feedlots/feed mills to receive grain on behalf of the Canadian Wheat Board in order to permit direct movement from farm to feedlot/mill while permitting the farmer to participate in the pool. The Panel recommends an adjustment to the current content limit of off-Board wheat and barley to promote the exports of processed feeds.

The Board has established working groups with the malting and milling industries in an effort to develop the most successful strategies for these Canadian processors. This collaborative effort should be extended to the livestock industry to develop approaches that are fully compatible with the Board's marketing efforts and the long-term interests of the livestock sector in Western Canada.

GETTING THE GRAIN TO MARKET

The Review Panel feels it is imperative that the needs of the customer continue to be a key focus of Canada's grain handling and transpor-

tation system. The Board must have the confidence that the grain entering the pipeline is precisely matched to that required at the other end to meet contractual commitments. In addition, it is critical that the Canadian Wheat Board maintain fair access among producers to these marketing opportunities through quota and contracting arrangements. Therefore, continued involvement by the Board in rail car allocation is necessary.

As the handling and transportation system evolves, greater pressure will develop for a "just in time" system, which further reduces storage, handling and transportation costs. The Canadian Wheat Board should be prepared to refine its contracting program through the inclusion of such concepts as payment for a commitment to deliver.

For the longer term, the Review Panel recommends that the Board provide a leadership role as a strategic partner of the industry in its plans to develop the infrastructure necessary for the future. In particular, this role includes the development of a strategy which outlines the future requirements of the east and west coast facilities. It is the recommendation of the Review Panel that the Canadian Wheat Board not become involved in the direct ownership of facilities in Canada except in extreme circumstances. This role is best left to the private and cooperative sectors.

CHAPTER I
INTRODUCTION

The Canadian Wheat Board Review Panel was appointed in January 1990 by the Commissioners of the Canadian Wheat Board. Its mandate was to examine the challenges and opportunities that will be faced by the Canadian Wheat Board in the Nineties and beyond. Recommendations were to be made which would strengthen the viability of the grain industry in Western Canada, with particular focus on maximizing returns to the Western farmer. In carrying out this assignment, it became necessary to review the Canadian Wheat Board organization and its structure, including marketing procedures, transportation, and the pooling system.

The Panel drew not only upon the extensive experience and background of the Panel members, but also included interviews with senior Board officials, briefing papers, and discussions with the Ministers of Agriculture for the provinces of Alberta, Manitoba, and Saskatchewan. In addition, the Panel was particularly appreciative of the wide-ranging, unsolicited submissions from several business and farm organizations. The Review Panel recognizes that its deliberations took place without full knowledge of policy changes, both in Canada and abroad, that may occur in the near future. The recommendations are aimed at building an industry which is focused on broad objectives and is adaptable to change.

A. THE CANADIAN WHEAT BOARD

The Canadian Wheat Board is a crown agency which operates under the authority of the Canadian Wheat Board Act. This legislation outlines the responsibilities of the Canadian Wheat Board and the operational framework within which the Canadian Wheat Board operates. In the context of current legislation, the Canadian Wheat Board:

- markets and sells wheat and barley produced in Western Canada to the world and the domestic food market to the best advantage of producers; and
- provides producers equitable access to markets and, through pooling of revenues, an equal share in the returns from those markets.

In addition to these core responsibilities, the Canadian Wheat Board may, at times, play a supporting role to the open market in ensuring that feedgrain supplies are available domestically. The Canadian Wheat Board also administers the Prairie Grain Advance Payments Act on behalf of the Government of Canada.

B. PRESSURES AND ISSUES

There are many pressures and issues that will be faced by producers and the Canadian Wheat Board in the Nineties. Of first concern is farm income. Second, there are many important policy changes or potential changes which may affect operations of the Canadian Wheat Board, both within Canada and externally. Third, there are general political and economic trends occurring which may have a profound impact on the future of the Western Canadian grains sector.

1. Farm Income

The low price of grain precipitated an income crisis in the Prairie grains sector during the last half of the Eighties. These low prices were the result of subsidy battles waged between the United States and the European Community. The prospect for progress at the General Agreement on Tariffs and Trade negotiations, changes in farm policies in key importing and exporting countries, and an improved supply/demand situation may foster higher prices in the Nineties. However, the cost/price squeeze on grain producers is likely to continue, and these issues will lead to further pressures on every

component of the grains sector that costs be minimized and that every revenue opportunity be seized.

These factors will increase pressure on the Canadian Wheat Board to take a lead role in developing every sales opportunity possible and to cooperate with all segments of the industry to reduce cost and maximize performance. The bulk movement of grain for export will continue to be central to grain producer income, and every innovative tool to market grain at maximum price must be developed. In addition, there is increased focus upon secondary processing. It will be a challenge to all components of the industry (government, Canadian Wheat Board, producers, processors, etc.) to ensure that all potential for grain processing and livestock production in Canada is fully exploited.

2. Policy Changes

There are important policy changes or potential policy changes that may affect the operations of the Canadian Wheat Board, both within Canada and externally. One of the most important of these is the General Agreement on Tariffs and Trade (GATT). Agricultural trade reform figures prominently in the round of GATT negotiations scheduled for completion in December 1990. While it is impossible to predict at the time of writing if a successful conclusion at this GATT round will be reached, it is not likely that all differences between the United States and the European Community will be resolved. From a Western Canadian point of view, the elimination of export subsidies must remain a principal objective of our participation in these multilateral negotiations.

Another major policy change is the Canada/United States Trade Agreement (CUSTA). This agreement will affect the Canadian Wheat Board in several ways. The first is that Canada/United States Trade Agreement discussions have contributed to the expectation of a free trade environment. Second is the reduction or elimination of tariff and non-tariff barriers for processed agricultural products. This development creates a new environment in which the Canadian processors will be competing directly with processors in the United States. This development, and the popular goal of increasing "value-added" processing, places major pressure on the Canadian system to discard all domestic price systems and to price raw materials and commodities accordingly at levels no higher than those available to the American competition.

Third, as a concession to the United States under Article 705 of the Canada/United States Trade Agreement, Canada agreed to eliminate Canadian Wheat Board administered import licenses for wheat and barley when subsidy levels in the United States fall to a level equal to or less than those in Canada. Historically, import licenses were seen to be necessary to ensure the integrity of Canada's quality control system and to provide the Canadian Wheat Board with the necessary means of preventing disruption of the market in Canada. The removal of import license provisions will challenge the Canadian Wheat Board to develop marketing approaches that are compatible with this new reality. In this context, it is important to note that the Canadian Wheat Board will continue to require export licenses for all wheat and barley leaving Canada, in order to ensure that the pooling system continues to work well.

In addition to the two major trade developments, the General Agreement on Tariffs and Trade and the Canada/United States Trade Agreement, there are many policy changes or potential changes in Canada that will have an effect on the Canadian Wheat Board. These include the method of payment, pooling back-off, advance payments, and safety nets. At the time of writing, there is considerable uncertainty with regard to these and other issues. A change in the method of payment of the Crow Benefit, for example, could result in absolute and relative price changes on the Prairies that will influence the production and movement of grain. In addition, it has implications for the cost and configuration of Canada's handling and transportation system.

3. Global Trends

There are general political and economic waves or mega-trends occurring which may have a profound impact on the future of the Western

Canadian grain sector. The high profile political and economic restructuring that is taking place in Eastern Europe and the U.S.S.R. has captured most of the media attention. However, there are important changes taking place in other regions of the world, notably China. These changes will inevitably have implications as to the institutional arrangements by which the business of the grain trade is carried out.

A second and related factor is the continuation of the information revolution which ties all countries much closer together into a global village. Information and communication considerations will challenge the Canadian Wheat Board within Canada to utilize fully these new technologies to develop more effective methods of meeting its marketing, grain handling, and transportation challenges. In addition, these technologies provide new possibilities for the Canadian Wheat Board to communicate with its stakeholders, the producers.

Third, environmental issues will become increasingly important in the next decade and beyond. On the supply side, protection of the soil, concern over the use of chemicals, and perhaps climate changes will influence production of crops. Environmental concerns, however, may also create opportunities, such as an awareness that Canada is well equipped to deliver safe, healthy grain and grain products.

Finally, population growth in the developing world will continue to expand potential demand for cereals. The translation of the potential demand into realized market demand can occur only if income growth in these countries is significant.

The above pressures and issues establish the environment in which the Canadian Wheat Board will market grain in the Nineties. A number of issues were well defined, and the Panel was in a position to develop specific recommendations. For example, the Canada/United States Trade Agreement is now largely implemented. The Panel could reasonably assume that in the Nineties Canadian Wheat Board import permits for wheat and probably barley will be replaced by end use certificates or, in the case of feed wheat and barley, a requirement for denaturing. As a result, the Panel was in a position to make a number of specific recommendations for marketing in North America.

Many other issues listed above may have a dramatic effect on markets or the marketing process, but the timing and scope of the changes remain unknown. The potential changes in economic structure in Eastern Europe and the U.S.S.R. are prime examples. Even for the Canada/United States Trade Agreement, where the legislation has been largely implemented, the trading environment that will develop due to these changes is unknown.

C. CONTENTS OF THE REPORT

The Panel covered a wide cross section of topics in its discussions. The conclusions and recommendations are outlined in the report in three major areas.

The first section deals with the structure of the Canadian Wheat Board. In response to the uncertainty and the ongoing need for producers to be a part of changes which are implemented at the Canadian Wheat Board, the Panel recommends a change to a corporate structure with a board of directors that would include a producer component.

The second section deals with the broad area of marketing. Since the Canadian Wheat Board has been a key participant in the global market for decades, the Panel concluded that the trend toward globalization did not require a fundamental change in the strategy used in marketing Canadian wheat and barley. Rather, the Panel makes a number of recommendations to increase the ability of the Board to deliver a consistent quality product to the customer at the time it is required. The Panel recommends some specific changes for marketing in North America, as the Canada/United States Trade Agreement provided the Panel with a number of specific issues that need to be addressed.

The third section deals with the transportation component of marketing. The outcome of discussions regarding rail rates was not resolved at the time of writing this report. However, the Panel outlines a number of options that the Board could follow contingent upon the results of these policy discussions.

CHAPTER II
CORPORATE STRUCTURE

A. CURRENT STRUCTURE

The corporate structure of the Canadian Wheat Board is set out in the Canadian Wheat Board Act. The Board is to be composed of no fewer than three and no more than five Commissioners, one of whom must be the Chief Commissioner who presides over meetings of the Board. A second Commissioner is designated as the Assistant Chief Commissioner to fill this role in the absence of the Chief Commissioner. All Board members are full-time appointments. It is the responsibility of the Board to implement the functions as set out in the Act. Full responsibility to hire and manage all staff is conferred upon the Board.

All Commissioners are appointed to hold office during "good behavior" for an unspecified period, but not beyond the age of seventy. What this means is that Commissioners could be removed from office only by the Governor-in-Council for a major breach of confidence. The intention of this type of appointment is to give these individuals adequate political independence from the government of the day so that they can focus their talents upon the responsibilities delegated to them.

At meetings of the Board, at least two Commissioners must be present, since a quorum is defined as two. Other than empowering the Chief Commissioner with the authority to call and preside over meetings, the Act does not specifically confer powers upon the Chief Commissioner over those of his colleagues. In this sense, many of the conventional functions of a chief executive officer are shared among all Commissioners, and the decision-making process is one governed by consensus.

As well as allocating a significant portion of their time to sales, the Commissioners fill all the comparable roles of a conventional corporate structure: board of directors, a chair of the board, and a president or chief executive officer. At the staff level, there are three main executive branches: Finance, Marketing, and Planning. Other senior management positions which report directly to the Board include the Corporate Secretary, and the heads of the Legal, Information, and Personnel Departments. There is no delegation of areas of functional authority among the Commissioners, although expertise and interest mean that varying levels of input are provided by different Commissioners depending upon the subject.

B. ACCOUNTABILITY

The Canadian Wheat Board might well be considered as a strategic alliance between farmers and government, who share a common goal of developing an effective marketing system. As such, the Board must accept a shared accountability to both government and farmers. In a legal sense, this is provided for by the requirement that the Canadian Wheat Board provide an annual report of its activities to the Parliament of Canada. A Minister is designated, through whom the Board reports. The development of a team approach between the office of the Minister and the Board is very important, particularly on such matters as government-guaranteed buyer credit, establishment of initial payments, and administration of the Prairie Grain Advance Payments Act.

Ultimate accountability to government is unavoidable, since considerable powers are conferred upon the Board through an Act of Parliament. These powers include monopoly rights to market certain grains and a minor law-making function in areas such as delivery quota, whereby decisions of the Board become enforceable legal regulations under which violators may be prosecuted.

While accountability to government is necessary, it is important to recognize that farmers pay for the operations (including all staff)

of the Canadian Wheat Board, and that the Canadian Wheat Board is operating on their behalf. However, there are no formal requirements of accountability to farmers, other than indirectly through the annual report to Parliament. Attempts have been made to recognize the farmer as the main stakeholder of the Canadian Wheat Board. First, Ministers have consistently tried to appoint Commissioners who, in their opinion, would best serve the interests of farmers. Integrity, competence, and balance of expertise among the Commissioners have generally been prime criteria in making these selections. Second, a Canadian Wheat Board Advisory Committee, consisting of eleven elected grain producers from all regions of the designated area, exists to provide farmer input into the operations of the Canadian Wheat Board. The Committee plays an important role in ensuring that farmer views and perspectives from all regions are continuously present in Board decisions. Third, the Canadian Wheat Board and its Advisory Committee hold annual open meetings in each Advisory Committee member's district to discuss Canadian Wheat Board operations and answer questions that farmers may wish to ask. Finally, the Canadian Wheat Board disseminates information through its publications and a broad range of producer and industry meetings. In spite of this, the Review Panel notes a strong desire on the part of grain producers for the Board to develop even stronger lines of accountability to the farmer.

C. FUTURE CORPORATE NEEDS

Pressures on the Canadian Wheat Board suggest that, in the future, three key objectives should be pursued:

- A modern effective structure that can set policies and objectives and move quickly to take advantage of all opportunities in the fast-paced North American and world markets.
- A structure that can interface closely with government to ensure that the Canadian Wheat Board develops the most effective Canadian overseas marketing presence possible.
- A structure that provides producers with the confidence that the Canadian Wheat Board is fully responsive to farmer needs with adequate channels to ensure a high degree of farmer input and involvement.

This final objective is particularly important, since it underlines the desirability of farmer "participation" and "ownership." If farmers are to feel that the Canadian Wheat Board is "their" corporation, then stronger lines of communication must be developed.

In order to meet these objectives in the Nineties, the Review Panel recommends a corporate structure consisting of a part-time board of directors, one of whom would be chair, and a full-time president, who would be responsible to the board of directors for the ongoing operations of the Corporation. This would include general responsibility for all staff appointments, including those at the vice- president level as well as the day-to-day management of the Corporation.

The board of directors would be a part-time, non-executive team, fully or partially appointed by government. To provide producers with the confidence that the Corporation is closely attuned to their interests, a majority of directors should be grain producers. Other board members should be chosen to take into account the needs of the Corporation in terms of experience, contacts, and expertise. Included as directors should be representatives of the federal government who have specific expertise in finance and trade, to reflect the major partnership between the Canadian Wheat Board and government in these areas. Other directors should be appointed to capture areas of needed expertise. Of these directors, one would be appointed chair.

The board of directors would be responsible for the development of operations guidelines within which the president would operate. The board would also be responsible for broad matters of policy, especially those initiatives which might require use of producer funds in areas such as scientific research, infrastructure expansion, or market development. The president must be relatively free, as the Commissioners are today, to plan and implement sales and associated programs as seen fit from an operations standpoint.

Timing for the changeover to a corporate structure deserves high priority for many reasons. First, this proposed structure will be useful in gaining acceptance and stature in the United States, since it is a structure which is both recognized and well understood by those corporations which will comprise much of our potential sales.

Second, this management change should be carried out as soon as possible to lead Canada's marketing efforts in a fast-changing world. In order to adopt this new management structure with minimum disruption to customers and producers, it is imperative that the transition period be planned carefully. The Panel recommends that current Commissioners fill key positions in the new Corporation, such as those of president and vice-president, as well as directors on the new board.

The Panel also considered the name "Canadian Wheat Board." There are problems with the connotation of the word "Board" in marketing to the United States. The Panel felt that the name will merit further consideration as the trade environment of the Nineties develops.

A responsibility of utmost importance is the area of producer information and communications. The Board currently supplies information through Canadian Wheat Board publications, media relations, conference and farm meeting presentations, and general grassroots communications. These efforts should be intensified, taking into account areas of commercial sensitivity. In some situations, farmers simply need to understand the current system better. One example is the pooling system. The pooling system is not simply an averaging process. Rather, it is a system by which all producers share in the highs and lows of prices throughout the year in a manner which reflects the relative market value of each grain and grade. A special effort should be made to ensure that farmers understand key elements of their system such as this. In turn, greater farmer feedback will help to improve the system. The producer members of the board of directors could play a part in the relationship between the board and the producers. The Panel recommends that the position of president should include the responsibility for establishing a producer relations program.

CHAPTER III
MARKETING

A. MARKETING IN THE WORLD MARKETPLACE

1. Background

The Western Canadian grains sector has been dependent upon the global marketplace for all of the twentieth century. In this sense, globalization is a concept which is not new to this sector. An account of the evolution of the world grain market and the development of the grains sector in Western Canada makes interesting reading. For a short version, the reader is referred to the report of the Canadian Grain Marketing Review Committee, chaired by M. W. Menzies. This Committee was announced in July 1970 and made its report to the Canadian Wheat Board in January 1971.

With all the benefits of hindsight, 1970 can truly be seen, in terms of the Canadian grains sector, as a major turning point in history, when many significant factors combined to produce change. These factors included:

a) The formal recognition in 1969 that the International Grains Arrangement had collapsed and that the era of the International Wheat Agreement had ended.

b) The end of the Canadian Wheat Board perception of itself as a price leader in the world wheat market. In practice this meant that Canadian Wheat Board pricing practices had to become much more flexible, moving away from daily publication of a rigid price structure.

c) The associated recognition that it was no longer an appropriate strategy for Canada to bear the burden of stock accumulation in an attempt to influence world price levels. Accordingly, the Temporary Wheat Reserves Act, which encouraged the commercial elevator system to store rather than move grain, was terminated. As well, to reduce stocks, the land set-aside program, Operation Lift, was implemented for the 1970 production season.

d) The realization that the Canadian Wheat Board must have full latitude to compete for world grain markets at all times.

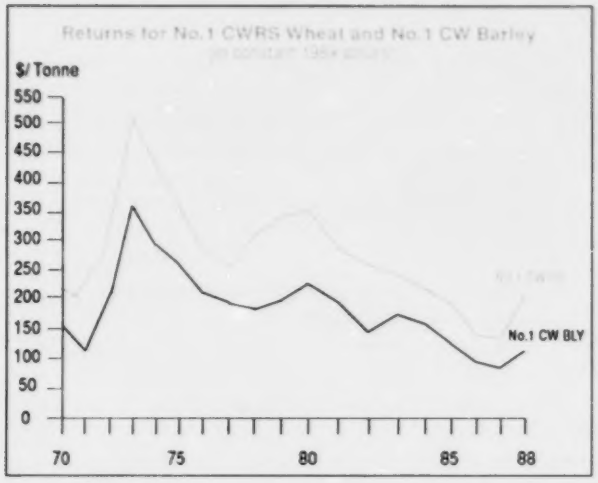
e) The concurrent recognition that safety nets (income stabilization and support) are the role of the federal government, and that a clear distinction between this role versus the marketing role of the Canadian Wheat Board must be maintained.

f) The determination that the needs of the buyer must be the driving force behind a successful integration of the Canadian grain system from farm to terminal. Sales targets and sales contracts were to drive the system, giving the Canadian Wheat Board sufficient influence through the Block Shipping System and car allocation procedures to ensure these market oriented goals were met.

g) The beginning of a decade marked by explosive demand from the centrally planned economies and the developing world.

In summary, the world grain market was in the process of change in 1970 and the Canadian grain marketing system was changing in recognition of the international changes. National policies in Canada and the United States were geared toward removing land from production to decrease grain stocks.

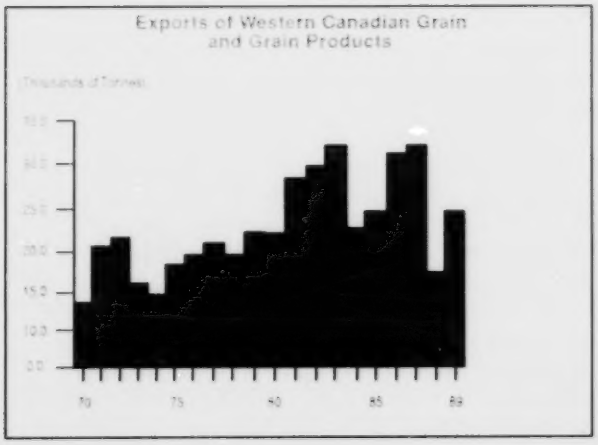
In the early Seventies, high grain prices allowed governments to step away from direct involvement in agriculture markets. Spurred by growing demand from Eastern Europe, the U.S.S.R., the People's Republic of China and the Third World, inflation-adjusted prices rose to the highest level recorded in more than 50 years. The Eighties were a complete contrast: production capacity grew faster than commercial demand, government supports returned to dominate markets, and credit problems in Third World and



Using 1989 dollars, real prices of grain have been very depressed in recent years.

centrally planned economies were a major impediment to growth. As a result, the price and export subsidy wars developed, with real prices falling to their lowest levels in history.

All this time, the Canadian Wheat Board was an aggressive player in the global grain market. The efforts of the Board during this period are perhaps best summarized into three basic initiatives or strategies. First, it was recognized that the ability to move the grain to market and to match grain movement precisely to contractual commitments is critical. During the Seventies, transportation in some years had constrained total exports. As a result of major initiatives in transportation in the last half of the Seventies, Western Canadian grain exports reached record levels in six of the 10 crop years from 1980/81 to 1989/90.



A second initiative was to maintain and improve Canada's reputation as a supplier of a well defined quality product which is uniform within shipments and consistent over time. The varietal registration system and the Canadian Grain Commission system of guaranteeing grade specifications on each cargo have provided Canadian grain with a reputation for quality, uniformity, consistency, and cleanliness. The Canadian Wheat Board and the Canadian Grain Commission have worked to provide to the scientific community information on the types of grains required by markets in the years to come. The result has been the development of the Canada Prairie Spring wheat class and a number of new varieties which perform well in the traditional wheat and barley classes.

Participants view baking facilities at the Canadian International Grains Institute. The Institute is an educational facility which is 40 per cent funded by producers through the Canadian Wheat Board to support market development activities.

A third key marketing strategy of the Canadian Wheat Board is market development. An important component of this strategy was the development of the Canadian International Grains Institute. The Institute, which is jointly funded by the Canadian Wheat Board and the Government of Canada, provides the opportunity for customers of Canadian grain to come to Winnipeg to attend lectures and demonstrations on the marketing and processing of Canadian grain. The Institute has extensive milling and baking facilities on site in Winnipeg. Customers

are able to watch and supervise Canadian grain being made into the products that are demanded by consumers in their home countries. The Institute has proven particularly useful in introducing new customers to Canadian grains and introducing new varieties to Canadian customers.

2. Preparing for the Nineties

The ongoing success of the Canadian industry in marketing grain will be determined by the industry's ability to provide the customer with the quality of grain required at the price the customer is willing to pay. There are a number of factors which will determine the appropriate grain qualities needed for the marketplace.

a) Changes in milling and baking technology influence the relative values of wheat quality characteristics. The addition of wheat gluten, for example, decreases the need for and value of protein in wheat flour.

b) The mix of customers has a dramatic effect on the quality characteristics on which the industry should focus. For example, if end use shifts from pan breads to flat bread or noodles, protein will be less important.

c) Supply and demand conditions in the market affect the quality attributes for which the customer will pay premiums. For example, if there are more feedgrains in the world than there are markets for those grains, customers are more likely to give consideration to such factors as moisture content and test weight than when there is a shortage of such grains.

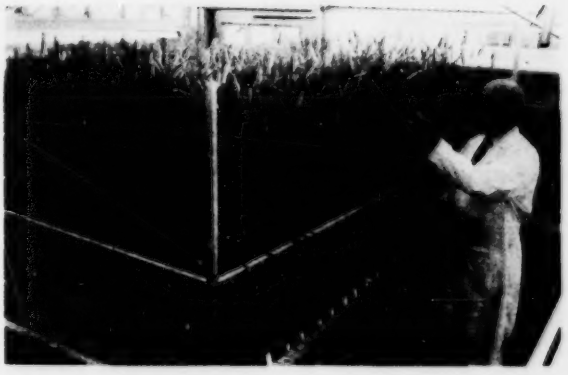
Delivering the required product to the customer has both short-term and long-term dimensions. The Canadian Wheat Board must continue to strive to meet the unique demands of each customer. ***In the short term, for customers who wish to have grain selected on the basis of specifications other than those provided by the official grades, the Panel recommends that, wherever it benefits producers, a selection process be made available.*** If there are sufficient volumes of grain requiring these specifications, the grading system will need to be examined to determine if it is necessary to use these customer requirements to adjust the grade specifications.

In the long term, the industry must establish a mechanism to ensure that the development of new varieties is driven by the projected demands of the customers. The committee reviewed a proposal for further Canadian Wheat Board involvement in research. This is outlined below.

3. Research

As the marketing organization for wheat and barley, the Canadian Wheat Board has an obligation to ensure that new varieties developed for Western Canada have the quality characteristics that are required by customers. This work is carried out jointly with the Canadian Grain Commission and is executed through special arrangements with producers and customers to produce and test promising varieties.

Research is carried out by Agriculture Canada, universities, and the private sector, and is funded largely by the public sector. The results of the Western Canadian research program have been commendable. Over the past two decades, both red and white medium quality spring wheats have been developed for the Canada Prairie Spring wheat class. Canadian durum sets a



The Canadian Wheat Board works closely with researchers to ensure new varieties have quality characteristics required by customers.

standard of reference in world markets. Harrington barley was developed for malting, and there have been a number of new varieties in the CWRS wheat class. The major constraint in continuing this level of performance is budgetary. Research budgets plateaued in the early Eighties, and the effects are now being felt in the research stations.

The potential returns from research remain high. For example, preliminary tests indicate that the parent material exists to achieve major advances in wheat yields without sacrificing protein or substantially lengthening the number of days to maturity. For barley, the market is demanding higher feeding quality. A joint Canadian Wheat Board/Canadian Grain Commission working group has outlined an urgent requirement to improve the quality of the feed barley exported from Canada. A major component of the improvements is upgrading the grade specifications in 1990, with further changes scheduled for 1991. These grade changes should be supplemented with the development of new feed barley varieties.

The Review Panel recommends that the Canadian Wheat Board be authorized to initiate and financially support research to accelerate the development of wheat and barley varieties that will be ideally suited to meet evolving market needs. This funding would be based on the condition that the funding be additional money and not simply a replacement for funds currently available for research. The rights to all findings of the research would accrue to the producers of Western Canada, including any royalties earned under Plant Breeders' Rights legislation.

It is critical that any Canadian Wheat Board research funding be targeted to specific objectives. The role of the Canadian Wheat Board as it pertains to varietal development is one of providing guidance to the research community on the needs of the market. The additional component of targeted funding should be used by the Canadian Wheat Board to direct the focus of the research community. The program should be of long-term duration, with reviews to evaluate its success in terms of the precisely-stated objectives.

B. MARKETING TO THE UNITED STATES

1. Introduction

The Review Panel focused considerable attention on the marketing of wheat and barley to the United States. This export market is singled out from other export markets for two reasons. First, the Canada/United States Trade Agreement increases the potential for greater access for Canadian grains in the United States market. Uncertainty exists as to the extent of the access due to the unique features of this market. ***However, it is incumbent on the industry to proceed under the spirit of free trade and develop the appropriate package of tools to capture market opportunities in the United States as they arise.***

Second, the Canada/United States Trade Agreement will change the relationship that existed between these two countries, which have developed considerably different marketing and policy approaches. There is uncertainty in the industry as to the ability of Canada to pursue an independent approach from that of its much larger neighbor. It is important that this uncertainty be laid to rest and the industry begin to work together to refine the tools necessary to remain competitive.

2. Profile of the United States Market

The United States is not a new customer to the Canadian Wheat Board. However, it is

unique in that it is both a huge grain producer and exporter. In the four crop years prior to the Canada/United States Trade Agreement, Canada exported more than 100 000 tonnes of milling wheat to the United States. For durum, the market had grown to more than 200 000 tonnes by 1987/88, the last crop year prior to the Agreement. In addition, there had been significant exports of oats and barley. These exports took place in spite of the fact that the United States is a large net exporter of high protein milling wheat, durum wheat, and feed-grains. Farmers in the United States see it as their right to serve their domestic market. As a result, there have been and will be strong political responses to significant imports of Canadian grain. ***The Canadian Wheat Board should work to improve understanding in the United States of the Canadian system, since many misconceptions exist.***

These political pressures can be expected to increase when the United States is using export subsidies to move its domestic production into the export market. The irony of the export subsidy program is that in imposing hurt upon Canada through lower prices in export markets, it makes the United States market more attractive for Canadian grain exports. These opportunities must be maximized in a fashion which does not prompt United States trade protectionist actions.

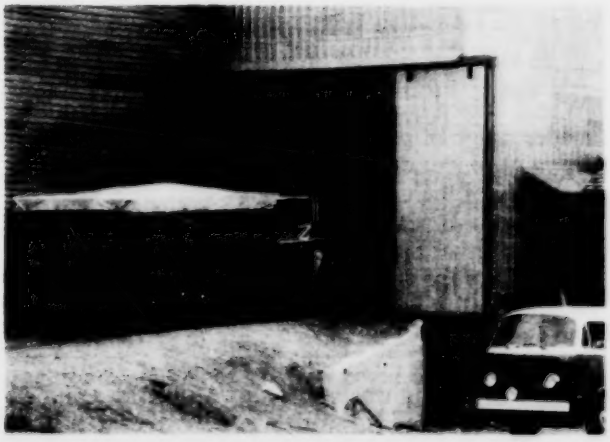
The other factor that makes the United States market unique among customers of Canadian grains is location. All other Canadian export grain customers are served by ocean transportation. In the case of the United States, the most efficient transportation link may be rail, truck, or, in the east, water. A significant volume of the wheat, durum, and malting barley business is moved through Thunder Bay to the northeast United States and Minnesota. In many respects, these sales are similar to other Canadian Wheat Board export business; however, a significant volume of this trade moves by rail beyond this point. ***If there is a change in the method of payment of the Crow benefit, the Review Panel concludes that the Canadian Wheat Board will be encouraged to look at more direct rail and truck exports to the United States.*** In addition, there may be times when movement to the United States will be most efficient from farm direct to the customer, although the volume of these movements can be expected to be quite small.

Although the increased volume of movement to the United States market may be small, the market can be expected to be a strong premium market at certain times. ***The Review Panel feels that it is extremely important that the Canadian Wheat Board develop fast, versatile marketing strategies in order to be competitive and capture these premiums when opportunities arise.*** This marketing strategy will require the Canadian Wheat Board to refine current sales mechanisms and develop new ones. Strong cooperation with agents will continue to be extremely important. The following summary provides an outline of a number of sales tools which the Review Panel discussed for sales into the United States market. The tools discussed focus upon direct sales ex-country, which would supplement current sales out of terminal position at Thunder Bay.

3. Sales Mechanisms Currently in Place

a) Country Local Sales

Country Local Sales (CLS) refers to sales made by the Canadian Wheat Board to line elevator companies who, in turn, sell the grain to a customer usually domestically or to the United States. The settlement price to the company is based on the estimated value of the grain in that market or alternative markets. The primary advantage of this system to the Canadian Wheat Board is that it is administratively simple, as the



Most farm deliveries are shipped for overseas export but some are sold directly from country elevators.

handling company negotiates with the buyer and bears all risks associated with weights, grades, and payment.

While administratively simple, this system has a number of limitations. First, the grain can only be sold to line elevator companies. This limits the contact between the Canadian Wheat Board and the end customer, which may limit the information that could be shared between the Canadian Wheat Board and customers. Second, CLS sales preclude Canadian Wheat Board accredited exporters who do not have line elevators from participating in the business. Third, a sale via the CLS system for forward delivery is awkward. The line elevator company would have to guarantee that it could get deliveries of the correct grades of grain to service the sale. Finally, grain is required to go in and out of a country elevator at a current cost of approximately $9/tonne. For some local sales, this cost may be unnecessary.

b) Canadian Wheat Board Sales FOB Country Elevator

To gain flexibility, the Canadian Wheat Board also makes sales of grain from country elevators (FOB) through accredited exporters, or direct to the end user. To date, these FOB contracts have been back-to-back with Canadian Wheat Board agreements with line companies for a handling function covering the supply of the grain, payment of the initial price, and issuance of the necessary documentation. This method allows the Canadian Wheat Board to sell to firms other than line companies, and provides more flexibility in selling forward, as the Canadian Wheat Board is able to originate the grain from a wider range of points and companies depending upon producer deliveries in the time leading up to delivery of the contract. Concurrent with the increase in flexibility, the Canadian Wheat Board and the buyer take on the additional risks of responsibility for weights and grade. This originating flexibility would be enhanced even further if the Canadian Wheat Board were to sell the grain delivered to the buyer. By accepting responsibility for the freight, the area from which the grain can be originated is limited only by the economics of transportation rather than the terms of contract.

4. New Directions for the United States Market

a) Canadian Wheat Board Sales Off-Farm

As previously mentioned, there may be sales to the United States market for which the most efficient method is to move the grain directly from the farm to the destination. The further development of the Canadian Wheat Board contracting program could facilitate this movement while allowing the producer to remain in the Canadian Wheat Board "pool." This type of off-farm sale would involve a number of steps:

i) A buyer is identified.

ii) Terms and conditions of the sale are agreed upon.

iii) Canadian Wheat Board identifies the closest available contracted supplies.

iv) Transportation is arranged.

v) A weight and grade are assigned to the grain and an initial price is paid to the producer.

vi) Money is collected from the buyer.

vii) An export permit is issued.

If the Canadian Wheat Board were to be responsible for each of the above steps, a large increase in staff in the country would be required. More appropriately, the Review Panel feels that a collaborative effort by the Canadian Wheat Board and the trade would be more cost effective. The Canadian Wheat Board would likely be involved in the identification of available supplies, in collection from the buyer, in issuing export permits, and potentially in the identification of customers. Many of the other steps might best be handled by the private trade. The Review Panel recommends that this option be developed and utilized where cost savings are possible.

b) Grain Auctions

Another potential sales concept discussed by the Review Panel is that of the sales auction.

The Canadian Wheat Board could announce in advance to its accredited traders that an auction will be held on a specific date for a specific quantity and quality of grain in specific location(s). Confidential sealed bids could be submitted based on auction contract terms. The Canadian Wheat Board could reserve the right to accept bids for all, part, or none of the grain auctioned. Auctions could be a useful mechanism to maximize revenue in a market where there are many small buyers, not all of whom the Canadian Wheat Board would deal with on a daily basis. An auction would be a well-structured way to advertise that the Canadian Wheat Board has grain for sale to these numerous interests. In addition, the freight market ex country points may be very uncertain with a multiplicity of levels; therefore, a closed bid auction with adequate competition could allow the Canadian Wheat Board to maximize the revenue from any one particular trade without having to investigate each and every potential landed value and freight spread to ensure this is being done.

The Review Panel feels that this concept may have merit and should be explored further. Its usefulness may be limited to specific instances or regions.

5. Canadian Wheat Board Pricing Considerations: Use of Futures

For wheat sales to the United States, it may at times be useful for the Canadian Wheat Board to have the ability to make sales on the basis of an exchange of futures. For these sales, a contract would be signed with a buyer at a fixed basis to a position in a public futures market (Minneapolis Grain Exchange, Chicago Board of Trade, or Kansas City Board of Trade). The buyer would have the option to price the grain prior to delivery. When the buyer wishes to fix the price, positions are liquidated. ***In order to accommodate basis trades in this manner, the Review Panel recommends legislation be changed to allow Canadian Wheat Board participation in the United States futures markets.***

6. The Role of Accredited Exporters

The Review Panel believes that the diverse nature of the United States market implies a significant role for accredited exporters. The Canadian Wheat Board has worked closely with its agents on almost all sales in this market to date. If markets develop for further direct rail and truck movement to the United States, private and cooperative sectors in Canada have most of the infrastructure in place to facilitate the sales. When it is in producers' interest to use this infrastructure, the Canadian Wheat Board will need to develop mechanisms to take full advantage of these resources. This is particularly true for direct movement off-farm. However, the Review Panel also believes that the Canadian Wheat Board will need to maintain a high degree of customer contact in order to ensure that changing end product needs are met and the producers' link to the final market is maintained.

7. The Canadian Wheat Board in a North American Setting

There are two distinct schools of thought on the impact of the Canada/United States Trade Agreement on the Canadian grain marketing system. One suggests that the forces released through the Agreement are so powerful that full harmonization with the United States system is inevitable. This would further suggest that, whatever the United States' approach toward marketing, quality control, subsidization and the environment, Canada will be forced to follow suit. For wheat and barley, this means that the Canadian Wheat Board and Canada's quality control system will cease to exist.

A second school of thought suggests that the pursuit of excellence through approaches which differentiate Canada from the United States in world markets continues to be possible, although there will be challenges along the way.

In the opinion of the Review Panel, this second approach is the preferred strategy for the optimal development of the Western Canadian agriculture sector. A key component in the

development of this strategy is the maintenance of Canadian Wheat Board export permits for all wheat and barley exported to all destinations, including the United States. Therefore, the Panel supports the decision made by the federal government during the negotiation of the Agreement that the Canadian Wheat Board export authority remain unchanged.

The Panel discussed the proposal of an open North American market and concluded that this was not reconcilable with maintaining the Canadian Wheat Board system of marketing. The primary reasons are outlined below.

A failure of the Canadian Wheat Board to remain involved in pricing the grain and issuing export permits for all sales to the United States would cause a major disruption to the pooling system through direct transfers out of the pool account. The reason for this is that all pressure for sales outside the system would take place in time periods when the grain market was at a premium to the expected annual average. This would result in a decrease in the volume of grain that the Canadian Wheat Board had available in these premium time periods. The losses would be particularly dramatic in a rising market and would always be in one direction – out of the Canadian Wheat Board pool accounts.

As well, Canadian Wheat Board confidence in volumes to be delivered would deteriorate. Currently, the Canadian Wheat Board has a good idea how much grain will eventually be delivered to the account of the Canadian Wheat Board and it knows that this grain will not be re-exported through the United States to compete against Canadian grain. These elements are critical to a strong Canadian Wheat Board negotiating position.

If unrestricted off-Board sales were allowed to the United States, these sales would take place when the price in the United States was higher than the Canadian off-Board price, which reflects expected Canadian Wheat Board pool returns. To maximize returns to all producers, the United States markets should be compared to export opportunities, not to the expected Canadian Wheat Board pool return. As sole exporter to offshore markets the Canadian Wheat Board is in a unique position to perform this arbitrage.

8. Summary

The Review Panel recommends that the industry be prepared to seize market opportunities as they arise in the United States. However, since the United States is a large exporter of wheat and barley, the industry should not stake its future on increases in exports to this market. Canadian exports will be politically sensitive, since Canada and the United States will remain competitors in the international grain market. For this reason, it is important for Canada to maintain a marketing strategy which will allow the industry to retain its competitive edge in the offshore markets. One component of this strategy is the maintenance of Canadian Wheat Board export authority to all destinations, including the United States.

C. MARKETING TO THE DOMESTIC MARKET FOR FURTHER PROCESSING

The policy approach regarding processed agricultural products in Canada in the past has fallen somewhere between the traditional demands for protectionist policies for processed and manufactured goods on one hand, and the desire for open access to export markets for our bulk commodities on the other.

For wheat and barley products designated for human consumption, the inflow of these products has been regulated through the judicious use of import licenses by the Canadian Wheat Board and the federal government. As a result of this strategy, Canada has usually held a positive trade balance in wheat and barley products, while capturing most of the Canadian market. Producers of wheat and barley benefitted from these arrangements through the implementation of two-price systems, which provided producers with a premium domestic market for their products. The exception to this two-price approach is feedgrains, which have generally been priced at export competitive or pool competitive values.

1. Milling Wheat and Durum

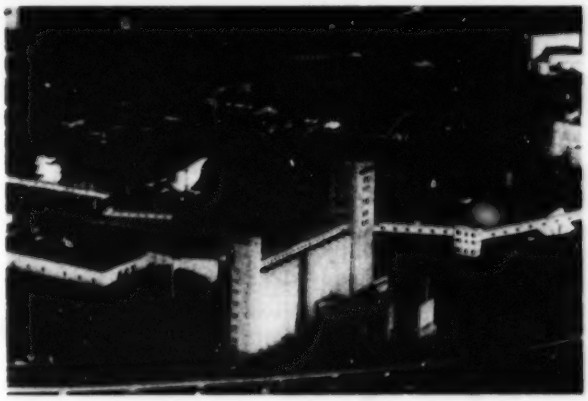
The last few years of the Eighties witnessed a policy change with regard to the

domestic price for wheat. The drive to raise producer incomes through the establishment of premium and stable domestic prices has been replaced by the desire to increase incentives for further processing of agricultural products. As a part of this change in policy initiatives, the government announced that, effective August 1, 1988, the existing domestic wheat pricing system in Canada would be discontinued. The domestic wheat price was to evolve to a North American competitive basis in preparation for the new marketing environment created by the Canada/ United States Trade Agreement.

The Agreement, which came into effect on January 1, 1989, provides for the gradual elimination of tariffs on grain and grain products over the next ten years. The tariff for wheat flour was $5.62/tonne on January 1, 1989. Of more consequence, however, the Agreement provides that Canadian Wheat Board import permits will not be required for wheat, barley, and products thereof at such time as subsidy levels in the United States become equal to or less than subsidy levels in Canada. At that time, Canadian mills will face direct competition from United States mills, and the Canadian Wheat Board will face competition in Canada from United States wheat.

As a result of the removal of the two-price wheat policy and the implementation of the Canada/United States Trade Agreement, the Canadian Wheat Board, following consultations with the Canadian milling industry, announced changes to its domestic pricing practices. The first change, which came into effect December 15, 1989, was that the two-month price was fixed in relation to United States futures prices. A further change took place on June 1, 1990, when the prices became weekly and were set in relation to Minneapolis, including freight and quality adjustments. Durum prices are established basis milling durum markets in the U.S., and Western Soft White Spring prices are established basis Chicago futures. The final stage of this evolution will be marked by the announcement of daily prices to become effective October 1, 1990. This gradual evolution has been established to allow the industry participants time to develop the expertise to operate in the face of variable prices.

The premium built into Canadian values cannot fully be accounted for by quality alone. A monopoly element exists which is balanced by the protection offered processors by the application of import permits on wheat flour and other wheat products. ***It is the recommendation of the Review Panel that the Canadian Wheat Board should move to price wheat in Canada competitively with United States prices. This change will foster further trust between the Canadian Wheat Board and the milling industry, and will assist the milling industry in making the transition to a North American market for wheat products.***



The Panel recommends that Wheat Board prices to Canadian mills should be competitive with U.S. prices.

2. The Domestic Feeding Industry

Since the introduction of the domestic feedgrain policy in 1973/74, the Canadian Wheat Board has not been a major supplier in the domestic market. Sales are carried out primarily by the private trade or direct farm to feedlot sales. The Canadian Wheat Board acts as a residual supplier at premium export competitive values. In this manner, the Canadian Wheat Board plays a passive role of assuring supply without disrupting the local market. In addition, the Canadian Wheat Board provides stock switches in the country, whereby the trade exchanges off-Board feedgrain stocks from one region for Board stocks in a region where off-Board supplies are tight. The off-Board feed market is strongly influenced by the Canadian Wheat Board expected final returns for the corresponding grain.

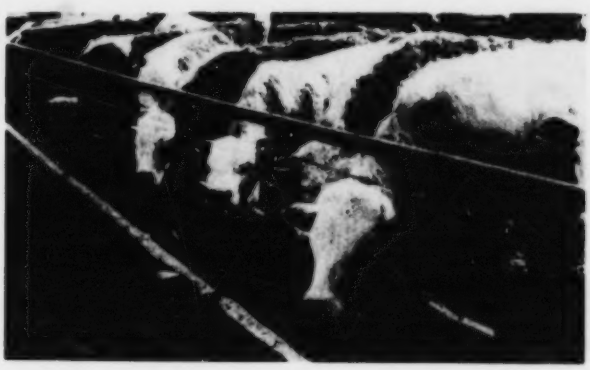
The role of the Canadian Wheat Board in the domestic feedgrain market is a delicate balance between maximizing sales revenues to producers through aggressive export programs, while not causing a shortage in the domestic market. The Canadian Wheat Board must continuously evaluate export availability and develop markets accordingly. If the Canadian Wheat Board underestimates export availability, then an artificial surplus is created on the Prairies and producer income is not maximized. On the other hand, if the Canadian Wheat Board develops a sales program that exceeds the amount producers are willing to deliver or the amount that is available, then there is a problem of "shortage," resulting in higher prices in the domestic market. In this situation, the Canadian Wheat Board has problems attracting delivery and the livestock sector must pay a premium for its supplies of feedgrains. An evaluation of price data over the Eighties indicates that the Canadian Wheat Board has managed to walk this fine line fairly well. Producers have been able to deliver most of the barley they wished to deliver, while prices in the off-Board market have tracked the Canadian Wheat Board pool returns fairly closely.

Two additional roles have been suggested for the Canadian Wheat Board in the domestic market. First, it has been suggested that the Canadian Wheat Board provide forecasts of the expected pool return on a regular basis throughout the year. The Canadian Wheat Board has always been hesitant to enter the public forecasting process, as it has a large position in the market and usually has a vested interest in portraying the market as "bullish." In addition, it is felt that there may be a danger of revealing sensitive customer information when especially large sales are made. As an alternative, the Canadian Wheat Board publishes weekly representative export values for comparable export grains.

A second suggested additional role for the Canadian Wheat Board is to become a more aggressive seller in the domestic market. The Canadian Wheat Board has remained a residual supplier in the domestic market for a number of reasons. The most obvious of these is that, as long as the Canadian market is a closed market, an active Canadian Wheat Board presence in competing directly with producers would serve little purpose and could lower returns to feedgrain producers. ***Since off-Board prices have generally been viewed as fair relative to export returns, the Review Panel feels the current role of the Canadian Wheat Board as a passive supplier of feedgrain to the domestic market remains the reasonable approach to this complex situation until such time as import permits are removed for barley.***

The Canada/United States Trade Agreement allows United States feedgrains to enter Canada at such time as subsidy levels in the two countries are equalized. The potential for competition from United States grain increases the incentive for the Canadian Wheat Board to become involved in the domestic market. If the Canadian Wheat Board is able to make sales into the domestic market at prices above available offshore alternatives, and this domestic market would otherwise be serviced by United States grain, then producer returns can be increased through Canadian Wheat Board domestic sales. ***Therefore, the Review Panel suggests that the Canadian Wheat Board may have to become "cautiously more aggressive" in the domestic feedgrain market.***

As discussed in the previous section regarding the United States market, the current Country Local Sales program would have a number of shortfalls in serving local markets. The off-farm sales program discussed in the context of the United States market may also be applicable in the Canadian domestic feedgrain



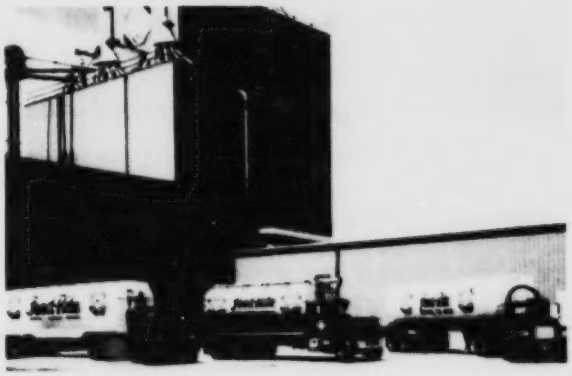
The Review Panel suggested that the Wheat Board may have to become cautiously more aggressive in the domestic feed grain market.

market. It may be useful for the Canadian Wheat Board to consider licensing, on a voluntary basis, Canadian feedlots and feed mills as agents so they are able to receive deliveries of grain for their own use directly from producers. The feedlot or mill would establish a purchase price through discussions with Canadian Wheat Board sales personnel. The feedlot or mill would then receive producer grain; pay the producer the initial payment less elevation, handling, and freight; and pay the Canadian Wheat Board the difference between the initial payment and the agreed sales value. The purchaser would thus have saved the cost of elevation and handling, which would otherwise have been charged by the country elevator. Accordingly, the Canadian Wheat Board price could be approximately $9/tonne more competitive than under CLS, while returning the same value to the pool account. In order for the Canadian Wheat Board to be confident that it has the supplies, it may be necessary for grain to be drawn from contracted supplies.

The Review Panel feels that, if the Canadian Wheat Board is to pursue sales in the domestic market more aggressively, then a number of pricing considerations must be kept in mind. First, the Canadian Wheat Board operations in the domestic market should be predictable and visible. The Canadian Wheat Board frequently markets more than 50 per cent of the feedgrains marketed through commercial facilities in Western Canada. It is not acceptable for a commercial organization with a quasi public mandate to hold 50 per cent of a commodity and behave in an ad hoc fashion – unacceptable levels of instability would be created in the market. ***Second, the Canadian Wheat Board must prevent grain from going through the pool account more than once.*** To avoid the creation of incentives for "recycling," sales must be made at price levels that exceed expected pool returns. In situations when sales could be made only at prices below expected pool returns, the Canadian Wheat Board should exercise caution.

3. Feed Processing

The feed manufacturing industry is an important industry in the grain/livestock complex



Feed manufacturing is important in the grain-livestock complex in Western Canada.

of Western Canada. Competitiveness in this business is very dependent upon the price of feedgrains and upon transportation costs. Industry officials generally believe that there are additional markets in the United States that could be captured if more competitively priced feedgrains in Western Canada were made available to them. Current exports of feed manufactured products from the four western provinces to the United States average less than 20 000 tonnes per year, and officials suggest that upwards of 60 000 tonnes (feedgrain equivalent) of additional sales might be achieved. The magnitude of this competitive zone south of the border is largely determined by transportation costs, given competitively priced feedgrains.

For sales within Canada, the feed processing industry draws its feedgrains from the grain producer as the primary source and from grain elevators as the secondary source. These purchases are almost entirely off-Board. Only on rare occasions will these purchases be made from the Board, since its offer price is generally higher than the off-Board price. In the case of exports, the industry can only purchase off-Board if the total wheat and barley content of the manufactured feed accounts for less than 25 per cent. If this content is greater than 25 percent, then these purchases must be made from the Canadian Wheat Board at prices that are generally higher and often considerably higher than the off-Board price. ***To facilitate this business, the Review Panel recommends that the Canadian Wheat***

Board increase the percentage of off-Board wheat and barley permitted in processed feed exports from 25 per cent to 75 per cent, effectively removing that restriction. An identification system will need to be put into place to ensure that only bona fide manufactured feed products are exported under this provision.

4. Malting Barley

The price of malting barley is established through negotiations between the Canadian Wheat Board and the malting companies. Due to import restrictions on beer, malt and products, almost the entire Canadian market has been serviced by Canadian companies. In addition, sizeable export volumes of malt have been achieved.

Western Canadian malting barley producers have benefitted from premium prices charged to the malting industry. These prices were possible since the malting industry was protected from imports of malt while the brewing industry was protected by marketing practices of provincial liquor control authorities. For malt produced for export, the Canadian Wheat Board and the malting industry have tried to work together to develop a strong Canadian presence, especially in Japan. For these exports, barley is priced competitively with malting barley prices in the market to which the malt is exported.

Collaborative efforts between the Canadian Wheat Board and the malting industry are important in maintaining the domestic market and developing export markets.

The Canada/United States Trade Agreement allows for the import of malt and malting barley from the United States when subsidy levels for barley are deemed to be equal. As a result, the traditional premium for malting barley over feed in Canada will diminish and the pricing system will have to reflect values in the United States. ***The Canadian Wheat Board and the industry have developed a working group which is examining alternatives for the evolution of this pricing strategy. The Review Panel endorses this collaborative effort, and recommends that these efforts be continued after the transition phase of the Agreement is complete to focus on the shared objectives of maintaining dominance in the Canadian market while increasing exports to the United States and offshore markets.***

5. General Comments

It is the view of the Review Panel that the Western Canadian grain industry will remain dependent upon the export grain market. In saying this, the Panel recognizes that the livestock industry is the most important single market for Western Canadian grain, consuming up to two-thirds of annual barley production. In terms of future growth, even the most optimistic scenarios for the grain processing and livestock industries will not greatly decrease Western Canada's dependence upon bulk grain exports. However, if further growth can be achieved, these industries are particularly important to employment spin-offs in small communities and associated industries such as transportation. ***The Canadian Wheat Board must work closely with these industries to ensure that it is not an impediment to secondary processing and that it does everything possible to facilitate new initiatives in these sectors, short of providing direct subsidies from grain producers.***

The Canadian Wheat Board is in a unique position to foster greater collaboration with the Canadian grain processing sector and the livestock industry. These parties must see each other as strategic partners in an attempt to service the North American market from Canada. Any mechanism which facilitates the sales of processed grain products must be developed when it is in the long-term interest of

grain producers. Current efforts to develop working groups between the Canadian Wheat Board and the milling industry as well as the malting industry are a good start to this process. The Panel encourages a similar approach with other groups, particularly the livestock sector.

D. OTHER CROPS

The Review Panel considered the question of whether canola and other grains should be included under Board jurisdiction. The Panel believes the Canadian Wheat Board marketing system offers benefits to producers of wheat and barley and recognizes that similar benefits may exist with other grains and oilseeds.

The mandate of the Canadian Wheat Board is often the subject of polarized debate. For this reason, it is important that the Canadian Wheat Board not actively participate in such a debate. The Canadian Wheat Board exists as a marketing arm of producers through legislation of the federal government. The mandate of the Canadian Wheat Board is therefore an issue which must be decided between producers and the federal government.

Information regarding the marketing of non-Board crops is readily available. However, similar material on potential Board marketing of additional crops is not available due to the sensitivity of the Canadian Wheat Board mandate question. The presence of non-Board information in the absence of a similar set of detailed marketing background on how the Board would market these crops may create a bias in the debate. The Panel felt that a market profile explaining the manner in which the Canadian Wheat Board would market other crops would provide both producer groups and government with useful background.

There is a delicate balance between provision of an information package versus active Board promotion for broadening its mandate. ***The Panel felt that whenever there is significant interest in the Board marketing a particular crop, the debate would be facilitated by the federal government asking the Board to develop an information package regarding how it would market that crop.*** With special reference to canola, the Panel noted the existence of the current canola marketing task force. In the event that Board marketing is one of the options outlined, the Panel recommends that the Board be prepared to respond to their findings.

E. FINANCE

In order to carry out its marketing responsibilities, the Canadian Wheat Board is a major borrower of funds. First, substantial funding is required to fund the acquisition of grain from producers at initial prices and to pay administrative and operating expenses. Second, the Board borrows money to finance credit sales under the federal government's Credit Grain Sales Program. In addition, the Canadian Wheat Board has also provided for the funding of advances to the producers under the Prairie Grain Advance Payments Act.

As an example of Canadian Wheat Board funding requirements, the Canadian Wheat Board net borrowing position in mid-February 1990 was in excess of $2.5 billion in Canadian funds, plus more than $1.5 billion in United States funds. The Board must maintain substantial lines of credit at all times. Canadian Wheat Board lines of credit and bank loans rank among the largest of any corporate borrowers in Canada.

In no areas of human endeavor is the concept of globalization more evident than in the field of finance. The information revolution has fostered a world environment in which capital is increasingly mobile. In reaction to these trends, significant changes have been made to Board finance operations. In 1984, amendments to the Canadian Wheat Board Act allowed the Board to borrow from a broad array of Canadian financial institutions. Previously, these activities were restricted to the six major Canadian chartered banks. In 1988, the Canadian Wheat Board Act was amended to enable the Board:

> ". . . subject to approval of the Minister of Finance, to enter into commercial banking arrangements and to borrow money by any means, including the use of bonds, debentures, notes . . . ."

The Act also provided for certain investing powers subject to approval of the Minister of Finance. With these new powers, the Board began to raise funds in the domestic money market by issuing notes directly to end investors. Similar activities are in process to raise funds for the Board's United States dollar requirements.

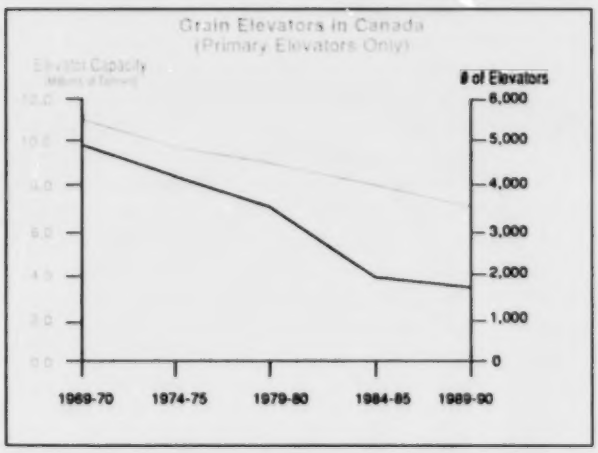
The Panel reviewed a proposal to allow the Canadian Wheat Board to borrow funds directly from individual producers. The program would be designed to return to producers, net of costs, a rate of interest comparable to the rate incurred by the Board from other sources. The Panel endorses the proposal and recommends that the Board proceed as soon as possible to implement this program. The program should be designed to allow all producers to participate. The Canadian Wheat Board can return to producers a relatively high rate on their savings since the Board has a significant ongoing demand for funds, a guarantee by the federal government, and an existing computerized account system for producers. Depending upon the future design of producer safety net programs, such a financial instrument may have a place in these programs. In addition, the Review Panel feels such collaboration between the Board and producers provides an element of direct producer involvement which strengthens ties between producers and their marketing organization.

CHAPTER IV
GETTING THE GRAIN TO MARKET

A. DEMANDS ON THE CANADIAN GRAIN HANDLING AND TRANSPORTATION SYSTEM

The Western Canadian Prairies are further from tide water than any other grain exporting region in the world. The cost of the services to move grain from farm gate to customer are paid, directly or indirectly, by producers, with the exception of the government share of rail freight rates.

The annual demand for the grain handling and transportation services varies greatly with production. In recent years, exports have varied from 19.8 million tonnes in 1988/89 to 33.0 million tonnes just one year earlier in 1987/88. In addition, grain delivery pressures vary within a year, responding to such factors as harvest and



seasonal road bans. The combination of a variable demand for services, and a highly capital intensive industry has led to the questions of what is the appropriate amount of infrastructure for the industry and where should this infrastructure be placed. In the Eighties, sufficient capacity existed to move an average to slightly above average crop.

Unless inexpensive surge capacity exists, it is not practical to have the capacity to handle a record crop in the year in which it is produced; nor is it cost effective to have the capacity to move all grain into commercial position at harvest. As a result, constraints are an important feature of the Canadian system. These include total system capacity, short-term capacity, and directional capacity.

The existence of these constraints has led to rate regulation and allocation of services among competing users. Examples include:

- Canadian Grain Commission specified maximum elevation and handling charges at both the country elevator and the port facilities;
- rail rates which are set by statute under the Western Grain Transportation Act;
- the Grain Transportation Agency, which divides the available rail car fleet between the Canadian Wheat Board and the private trade; and
- Canadian Wheat Board delivery quota policy, which determines the pace and quality of deliveries into the country elevator system.

The Canadian Wheat Board, as the principal grain marketing organization in the industry, in turn plays an integral role in the allocation of these limited resources.

B. MANAGING THE MOVEMENT TO PORT

1. Objectives

The mandate of the Canadian Wheat Board is to maximize producer revenue and to allocate market opportunities among producers. To do this, the Canadian Wheat Board must deliver the correct quality of grain to the customer at the time it is required, while moving the crop as efficiently as possible.

Customer satisfaction and loyalty is contingent upon performance in meeting the terms and conditions of sales agreements. Time of delivery is particularly important. Failure to deliver the correct grain and grade in the specified time may result in costly demurrage claims. Even more importantly, such failure will reflect upon Canada's reputation as a reliable supplier of grain.

The objective of efficient movement of grain or cost minimization involves a number of components. The most obvious is to move grain available in country position to the port that provides the highest net return, taking into account sales returns and costs. In addition, matching deliveries to shipments at each of the three stages (country elevator, terminal, and transfer elevators) minimizes storage charges and allows more grain to be moved through less elevator capacity. In carrying out these functions, the Canadian Wheat Board endeavors to work with the other participants to minimize all costs.

Fair distribution of delivery opportunity among producers is central to the mandate of the Canadian Wheat Board. The Canadian Wheat Board provides the only market for milling wheat and malting barley, and a necessary market for feed wheat and barley. As a result, the allocation of constrained delivery opportunity is a critical determinant of cash flow among producers.

2. The Mechanics of Canadian Wheat Board Transportation Management

The first step in the transportation component of marketing is to estimate the available supply by grain, grade and location. As the year progresses, knowledge of these factors is refined for incorporation into the sales program.

In the second step, producer deliveries are authorized to bring in the grain and grades required to meet the forward sales. Over the last two decades, delivery quota has been developed as a management tool to draw grain forward. The Boden Review (1970/71) of the Canadian Wheat Board quota policies was responsible for originating this dual focus of quota. Constrained system capacity in the Seventies provided an incentive for producers to deliver the grains for which delivery was authorized. In the Eighties, the expansion of the non-Board commercial feedgrain market in Western Canada and the general increase in delivery opportunity for Board grains, led to the introduction of contracts for feed barley in order to provide the Canadian Wheat Board with some assurance of the supplies that would be available for export and to allow the Board to draw these supplies forward. The most recent review of the Canadian Wheat Board delivery system (1987/88) advanced the proposal of a more extensive contracting system.

The third step in getting the grain from the farm to the customer is to allocate rail cars to primary elevator companies for the movement of specific grades to certain ports. This allocation has been refined over the years. In the Seventies, the cars were allocated on the basis of 49 shipping blocks. This changed in 1984 to train runs to improve efficiency through shorter car cycle times. In addition, the parallel development of the quota system to a train run basis allowed the Canadian Wheat Board to open and terminate quotas in a smaller region in order to draw supplies more precisely. The goal of car allocation is to coordinate delivery of grain to terminal position with the arrival of incoming vessels. In the case of eastern movement, a fourth step is involved as the grain must be shipped by a lake vessel through the Seaway.

The above outline of transportation management is an oversimplification. In reality, each step must be adjusted quickly to respond to changes in some other link in the marketing chain. For example, ocean vessels are often delayed, or even cancelled. The mix of grain cars in the country must be changed accordingly. If a general quota brings in a mix of grades which is different from that expected, the sales program must be adjusted to reflect this change.

C. THE TRANSPORTATION POLICY ENVIRONMENT

The evolution of rail policy over the past 15 years has played a dominant role in the overall western policy agenda. The issues and debates have been summarized in a number of sources. Two issues have remained and are currently being discussed in the Federal Agriculture Policy Review. These are:

- Cost and efficiency measures including the decision-making process by which the nature and size of the branch line network will be determined.

- The rate structure and the associated method of payment question.

The policy discussion regarding rail branch lines involves a number of lines which the railways have designated as high cost lines which currently are protected to the year 2000. The question before the grain industry is when and how decisions will be made as to the status of these lines.

The rate structure question is whether or not the producers should pay the full rate under the WGTA or continue to pay the shipper rates established under the WGTA. If there is to be a rate change, there is debate about a potential compensation package to recognize the Crow Benefit. The full rates would represent a three-fold increase over current rates. There is a linkage between the rate question and the branch line question, since variable rates could be used by the railways to draw grain away from branch lines which may be closed. At the time of writing the report, no decision has been reached regarding changes to the rate structure. The options include: status quo, full rates with a schedule of premiums and discounts which are negotiated between carriers and shippers, or completely deregulated rates which are negotiated with shippers. Various combinations of the above are possible.

D. PRODUCER DELIVERY COMMITMENTS

The grain marketing system from farms to customers is a continuous flow process in which the coordination of product flow at the input side is a key determinant of customer satisfaction at the output side. Delivery coordination is generally referred to as the Canadian Wheat Board quota system. However, with the introduction of guaranteed delivery barley contracts, the system is broader than simply *"quota."*

The *delivery system* was reviewed in detail in 1987/88 by a Quota Review Committee of the Canadian Wheat Board Producer Advisory Committee. The report provides useful background on the issues surrounding Canadian Wheat Board producer delivery authorization. Two points of particular interest in the report are the terms of reference and the major recommendation. The terms of reference state the objectives of delivery quota coordination. These are:

Quotas

- **Match deliveries to sales requirements**

- **Equalize delivery opportunity**

- to bring into market channels, within the authority of the Canadian Wheat Board Act, at the right time, the classes, qualities, and quantities of all grain required to meet market demand effectively; and

- to allocate delivery opportunities for grain in demand, to producers, with a reasonable degree of equity.

The major recommendation of the report was that the Canadian Wheat Board begin to draw grain on the basis of commitment to deliver. The primary motivations for the recommended change were twofold. First, the inventory available for sale was seen as a more reasonable base for equity than acreage, since land is only one of many inputs in production. Second, firm producer delivery commitments were viewed by the Committee as a means of improving the efficiency of the system. It was felt that deliveries would need to become more timely as the downsizing of the elevator system continues.

Producers expressed concern about the recommended changes for a number of reasons. The primary concern was that the proposal

represented significant change, and there was widespread support for the current system. The second concern was that a number of producers were unwilling or unable to make delivery commitments early and felt that they would lose the opportunity to deliver if they delayed making a commitment. The third concern expressed was that the Canadian Wheat Board should be committed to accept all contracted supplies. As a result of the divided producer reaction to the system, no change has been implemented to date.

Since the 1987/88 Quota Review, the need for timely producer deliveries under a system which recognizes the need for equitable delivery opportunity among producers has not changed. A number of significant developments have reinforced this need. Three of these developments are outlined below.

- Changes in rail rate policy may accelerate the closing of rail lines and elevators on these lines. As the transportation/handling system shrinks, the need for timely producer deliveries becomes more pronounced. In addition, the cost of Canadian Wheat Board crosshaul would rise under a method of payment change increasing the need for accurate and timely deliveries.

- The Canada/United States Trade Agreement puts pressure on the Canadian Wheat Board to acquire quickly from specific regions grain of the quality required in order to respond to the market opportunities when they arise both in the Canadian and United States markets.

- The introduction of interest charges on advance payments issued to producers causes equity of delivery opportunity to become more significant as the cash flow impact of delivery opportunity is more direct.

These three factors reinforce the need to respond to the pressures outlined by the Quota Review Committee. However, producer concerns regarding the Quota Review Committee proposal remain. In light of these concerns, it is not advised that the Canadian Wheat Board implement the proposal at this time. However, the Canadian Wheat Board will need to have additional volumes of grain under contract as the above factors develop.

The Review Panel discussed an alternative approach whereby the Canadian Wheat Board would pay producers a fee for commitment to deliver. The fee might reflect some portion of storage and carrying costs, or it might simply be a per unit flat fee. The Canadian Wheat Board would guarantee to take delivery of all grain committed by producers unless supplies offered were greater than Canadian Wheat Board requirements, in which case applications could be pro-rated. The Panel recommends that this concept be further refined through close consultation between producers and the Canadian Wheat Board. A number of issues that have been identified for further consideration include the following:

1. Cost

The program should be implemented only if it can be designed in such a way that the net impact on pool returns is positive. Program costs should be more than offset by additional revenue and/or lower operating costs so that no large transfers between participants and non-participants take place.

2. Equity and Pooling

Any major change to the Canadian Wheat Board delivery regulations should not detract from the goal of equitable treatment among producers. For this reason, producers must be well informed of the program in advance in order to allow all producers an equal opportunity to apply.

3. Compliance

This fee for commitment to deliver would strengthen producers' contractual obligations. If a producer fails to deliver in the required time frame, the Canadian Wheat Board could restrict future program participation by that producer.

E. EFFICIENCY WITH EQUITY: MOVING THE GRAIN TO PORT

As discussed earlier, there is ongoing debate regarding differential or incentive rail rates. Currently, rate discounts apply at specific points to encourage companies to increase the number of cars which can be loaded at individual stations. The current debate is whether to change the method of payment and to allow greater rate differences to exist for points equidistant from port. Whatever the outcome, the Canadian Wheat Board is in a position to view the transportation system as a whole.

The Canadian Wheat Board should work with the industry to develop all the tools necessary to capture efficiencies that are available. The appropriate strategy will be strongly influenced by the rate setting mechanism that is in place.

One approach by the Canadian Wheat Board which is in place for the 1990/91 crop year is to provide the companies with additional flexibility in the allocation of rail cars. The company will receive an allocation by train run, but will be able to apply to the Canadian Wheat Board to move cars to an alternative train run. The objective is to help the industry in those instances where efficiencies can be captured without hurting the ability of the Canadian Wheat Board to meet market requirements in the most efficient manner possible.

A second approach by the Canadian Wheat Board is to work with the line elevator companies to pursue rate discounts with the carriers for unidirectional shipments or for shipments originating from one or two train runs. This option would provide recognition that the primary savings are line based rather than point based. Rate savings which are negotiated may have to be shared with companies on the affected lines as they may also incur system costs.

If rail rates are left completely to negotiation between the carrier and the shipper, producer costs may be minimized by the Canadian Wheat Board working with its agents to negotiate rail rates. The United States market for rail service was largely deregulated in 1980. Over the past decade, market power of both carriers and shippers has been an important variable in determining these rates. The Canadian Wheat Board may be well positioned to assist shippers in negotiations. This option needs to be developed further with the companies if the market for rail services is restructured to involve private negotiation of rates.

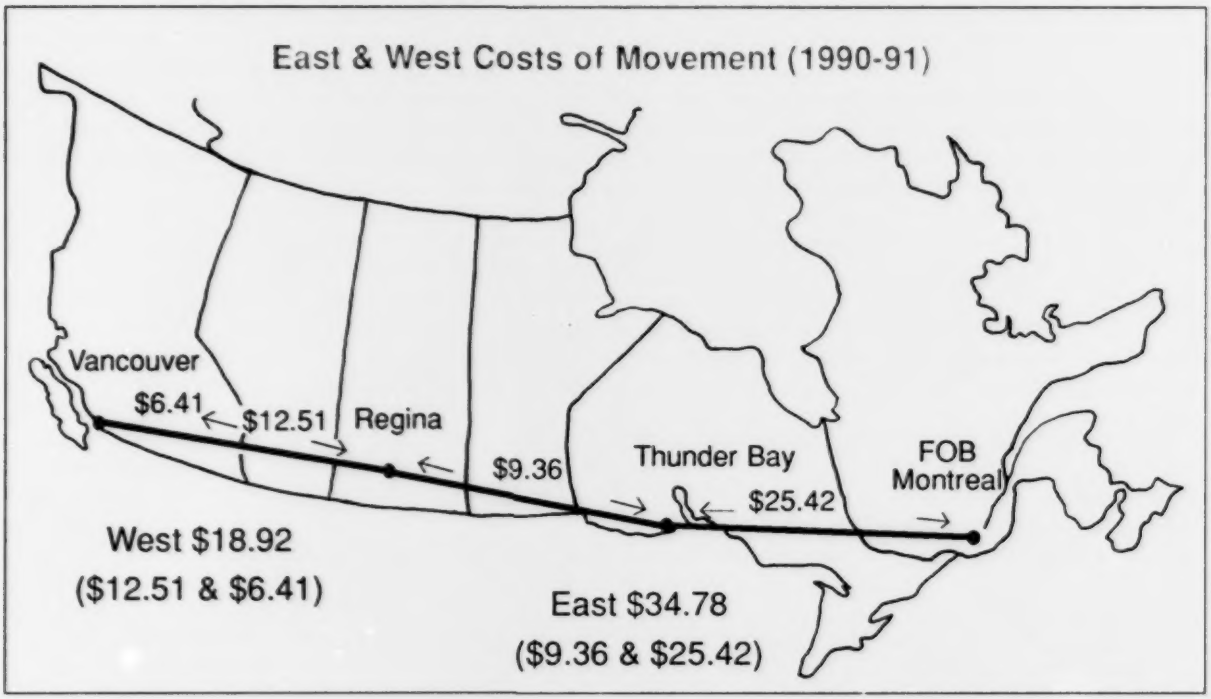
The role of the Canadian Wheat Board in rate negotiations will be determined by the structure of the rail freight market. If policy changes allow the carriers great flexibility in rate setting, the Canadian Wheat Board will best serve producers by actively pursuing rate discounts. The challenge for the Canadian Wheat Board will be to provide producers with fair delivery opportunity while allowing producers to deliver to the elevator of their choice.

One perceived option which was discussed, but rejected, by the Review Panel was for the Canadian Wheat Board simply to order the grain from companies at port. The option is interesting, as it points out the reason that the Canadian Wheat Board must continue to be involved in grain movement from the producer to the port.

There are three major reasons why having the Canadian Wheat Board bid for grain at port is not a viable strategy. The first is that pooling implies one price to producers at all times during the crop year and a bidding system implies the price to producers would vary through time. The second point is the need to adjust country shipping programs when customer shipping schedules change. Adding an additional layer of decision makers with conflicting goals makes it more difficult for the system to adjust quickly. The third, and perhaps the most important consideration, is that as long as the Canadian Wheat Board retains its single-desk selling authority, it must be able to give producers equitable access to marketing opportunities.

F. INFRASTRUCTURE DEVELOPMENT

The grain handling and transportation system is capital intensive. Investment is long term in nature, and the alternative uses of this capital are limited. As a result, it is important that the considerable talents and resources of the



government, industry and the Canadian Wheat Board are coordinated and focused to build the grain handling and transportation system that farmers will require in future years.

The Canadian Wheat Board played a leadership role in a similar situation through the establishment of export targets based on expected demand in the mid-Seventies. As a component of this strategy, the Canadian Wheat Board purchased rail cars to increase the rail car fleet to provide a strong statement to the rest of the industry as to the severity of the car shortage. As an additional component, the Canadian Wheat Board worked closely with the grain industry, the federal government, and the Alberta government in the expansion of the port of Prince Rupert. The result of this strong push for an increase in capacity has been a dramatic increase in the ability to move grain.

As the industry looks forward, there is a need to develop a more defined strategy regarding port export capacity. In aggregate among all ports, capacity is adequate but returns by port differ. Grain is of roughly equivalent value at Vancouver and the St. Lawrence. However, it costs approximately $16/tonne more to move a tonne of wheat from the central Prairies to the St. Lawrence than it does to move the grain west. In addition, there has been a dramatic increase in the amount of world grain demand accounted for by Pacific Rim nations. The result of these pressures is that West Coast ports are used to capacity while the eastern system is not. In spite of excess capacity in the eastern system, producer revenue would be increased if additional west coast export capacity were available.

The question before the industry is how much further west coast capacity should be expanded and how surge capacity should be accommodated. ***It is again timely for the Canadian Wheat Board to take a long-term view of the requirements of the entire system. The eastern system is able to provide a valuable role in providing longer-term growth capacity and short-term surge capacity. Alternately, good arguments exist to encourage west coast capacity, perhaps with some producer-funded incentives. In addition, the Canadian Wheat Board should seriously examine the shipment of grain through the United States west coast ports.***

These challenges are priority roles for the leaders of the Canadian Wheat Board to focus upon in the upcoming months and years. Total system capacity, the location of these facilities, and the financial involvement of the Canadian Wheat Board and farmers are key determinants to the future well being of the Western Canadian grains sector. In all cases, these efforts must be part of a coordinated partnership between the various industry participants, government, and the Canadian Wheat Board.

Photos courtesy of the Canadian International Grains Institute, Canada Malt, Feed Rite, and Ogilvie Flour Mills.